FEDERAL RESERVE BANK
OF SAN FRANCISCO

First Glance 12L (1Q16)

Financial Performance of Banks in the 12th Federal Reserve District ("12L")

Conditions Remained Healthy but Prone to Greater Volatility

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This report is based upon preliminary data from 1Q2016 and prior Condition & Income Reports as well as other examination and economic sources. Data has been prepared primarily for bank supervisors and bankers. The opinions expressed in this publication are those of the authors. Opinions are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System.

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Table of Contents

12th District Overview
"Conditions Remained Healthy but Prone to Greater Volatility"

In aggregate, the 12th District's economy continued to expand through first quarter 2016. Average employment grew 2.9% year-over-year, down slightly from an annual rate of 3.0% in the fourth quarter, but faster than the national growth rate of 1.9%. The education/health, professional/business services, leisure/hospitality, and construction sectors drove nearly two-thirds of net job gains in the District. Growth languished in energy-producing Alaska, but topped the national average in the District's other states.

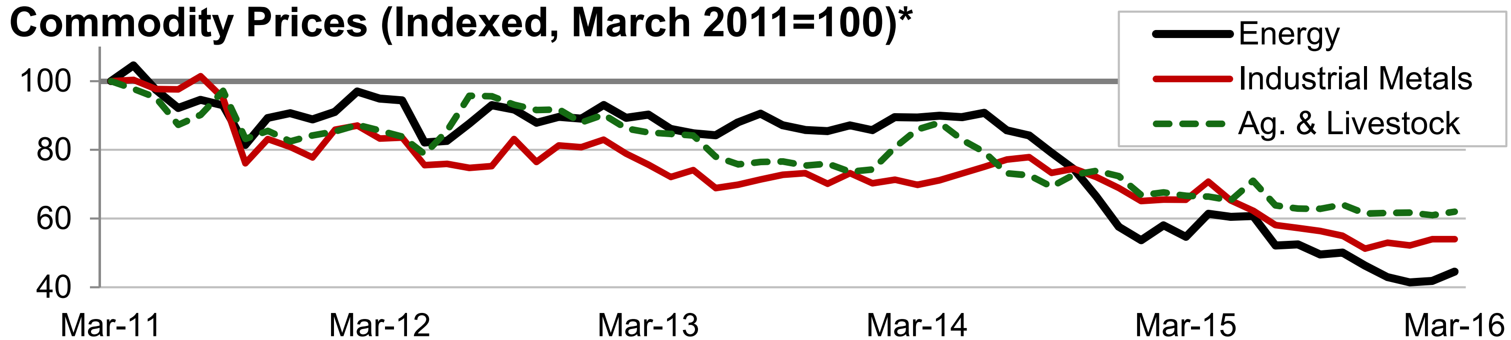
In the 12 months ending March, home price appreciation was above-average across most District states and outpaced household income gains, straining affordability. Price and job trends stimulated homebuilding, with growth in single-family starts outpacing multifamily by an increasing margin.

Historically, growth in employment and home prices has been more volatile in most of the District's states when compared with the U.S. (measured by standard deviation in annual growth). This implies the potential for higher peaks and lower troughs among many District states through the economic cycle.

Commercial real estate (CRE) vacancies and rents maintained their stable-to-improving trend. However, debt market volatility during the first quarter led to further credit spread widening in the commercial mortgage-backed securities (CMBS) market. Consequently, CMBS issuance volumes sank. This weighed on CRE price indices in several property sectors, especially downtown offices in major markets. The pace of future real estate price gains remains reliant on the trajectory of interest rates, capital flows, and/or credit availability. Jittery stock markets also weighed on venture capital activity, which has been an important engine for job growth and CRE demand in the District.

Commodity prices found a footing in the first quarter as foreign economies began to recover (see chart below). Meanwhile, the dollar weakened mildly, but remained strong relative to prior-year levels, especially against the District's major trading partners. This kept aggregate exports from 12th District states nearly 9% below first quarter 2015 levels.

Commodity Prices (Indexed, March 2011=100)*

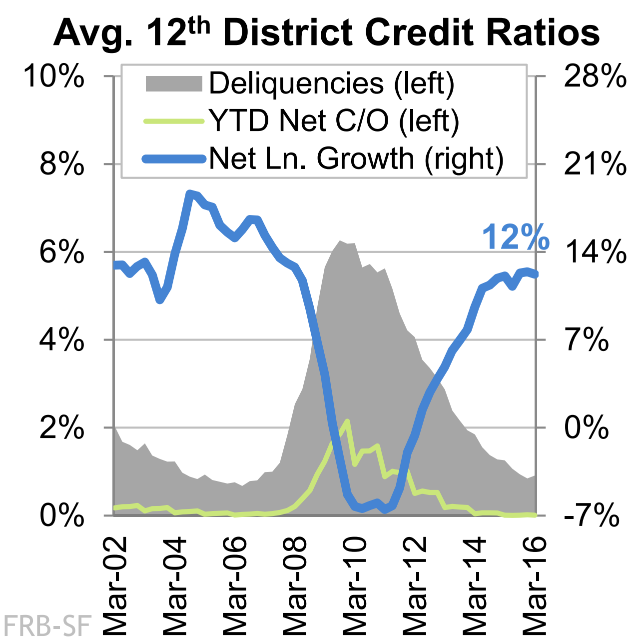


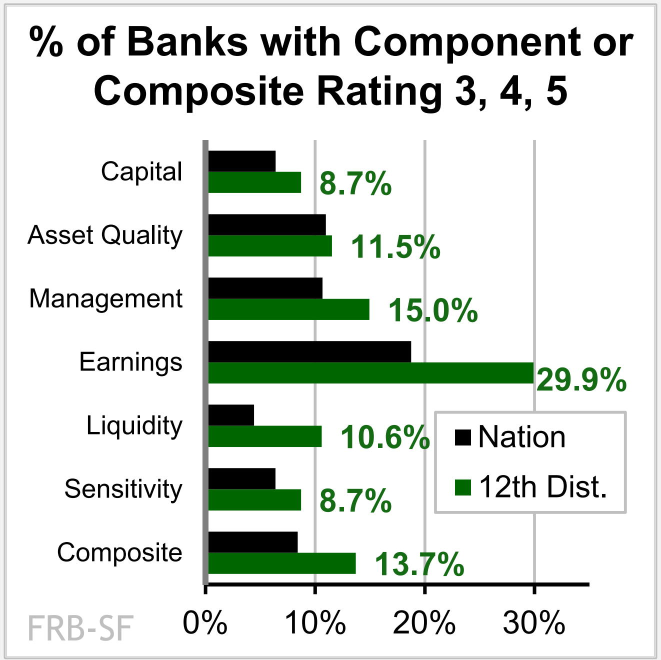
**S&P GSCI indices, based upon end-of-period spot values*

Year-Over-Year Change in Nonfarm Jobs (%)
(Based on 3-Month Moving Average, Seasonally Adj.)

	12-Month Trend	Mar-16
ID		3.75%
NV		3.30%
OR		3.22%
ID		3.13%
AZ		3.02%
WA		2.78%
UT		2.61%
CA		2.41%
AK		-0.32%
Nation		1.93%

12th District Overview, Continued





**Delinquent=30+ days past-due or nonaccrual; C/O= chargeoff (year-to-date annualized); trimmed means*

Banking conditions improved modestly during the quarter. Average District net chargeoff (C/O) and problem asset ratios remained very low, benefiting in part from sustained rapid loan growth (see chart at left). That said, many mid- and large-sized banks reported further increases in commercial and industrial (C&I) loan delinquencies and losses, led by energy sector credit stress. The average one-year net loan growth rate cooled slightly to 12.2% districtwide, but still far outpaced a national average growth rate of 7.4%. Construction and land development (C&LD) and multifamily mortgages remained the most rapidly-growing, albeit small, loan segments. In dollar terms, most new lending was in nonfarm nonresidential and C&I.

Notwithstanding growth, the April 2016 Senior Loan Officer Survey (SLOS) suggested modestly tighter underwriting among a small net fraction of lenders for C&I and commercial real estate (CRE) loan categories, continuing an earlier trend. In the case of C&I, lenders tightened loan covenants and premiums charged on riskier loans during the quarter. In the past year, CRE loan pricing and requirements for collateral and debt service coverage became more restrictive.

As with prior quarters, bank earnings improved modestly, led by further declines in overhead ratios and a small lift in net interest margins. Profits also benefited from benign credit conditions and low (albeit increasing) provision expense burdens. Provision expense ratios increased the most among large banks, often prompted by energy sector stress. Credit seasoning within rapidly-growing portfolios could lift provision expense burdens and pressure earnings prospectively.

Historically, rising short-term interest rates have been associated with widening net interest margins among the District's commercial banks. This trend held true in first quarter, as asset yields responded to rising short-term interest rates while funding costs held steady. Still, exposures to longer-dated loans and securities remained high by historical standards, potentially delaying some asset repricing.

As with economic measures, loan growth, credit, earnings, and liquidity metrics in the District have been more volatile than the nation since at least 2001. This implies potentially greater downside risk in a recession and the need for vigilant monitoring of loan loss reserves (to cover expected losses) and capital (to cover unexpected losses).

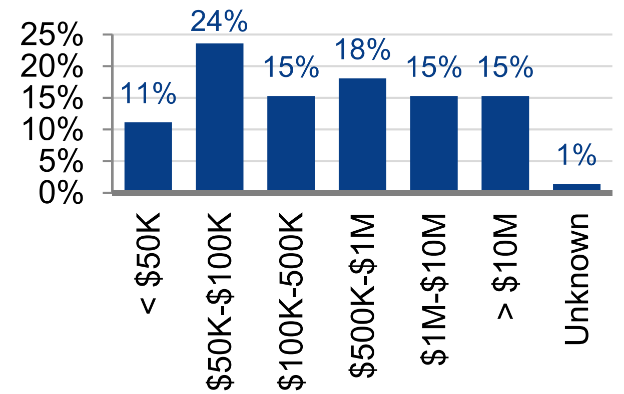
Safety and soundness and consumer compliance ratings continued to improve. Roughly 86% of District banks were rated satisfactory or strong for safety and soundness (see chart at left). In addition, 96% or more were rated satisfactory or better for consumer compliance and/or Community Reinvestment Act (CRA) performance.

Hot Topics: Areas We are Monitoring Most Closely

The following have been identified as areas of higher concern within the 12th District, based on risk exposures and metrics of Federal Reserve-supervised institutions:

- *Cyberthreats*. Attacks continue to evolve in both complexity and frequency and expose institutions to financial, operational, reputational, legal, and compliance risks. According to PricewaterhouseCoopers (PwC), 30% of surveyed financial services firms reported IT security-related incidents cost their firm at least $1 million in 2015 (see chart at right). This was atop budgeted information security costs. For institutions outsourcing core banking operations and/or security administration, vendor management programs remain critical to managing and mitigating cyberthreats. Inherent risks can increase from a variety of factors, such as system complexity, services, and visibility. For an optional tool to help assess vulnerabilities, see SR letter 15-9, *FFIEC Cybersecurity Assessment Tool for Chief Executive Officers and Boards of Directors*.
- *Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance*. Although most banks in the District have satisfactory BSA compliance programs, BSA/AML continues to be a significant "hot topic" due to the geography of the District and the array and strategic focus of institutions we supervise. BSA/AML-related criticisms noted at bank examinations most often relate to internal controls (e.g., institutional risk assessments; customer due diligence, including customer risk assessments; and suspicious activity monitoring programs). Concerns related to scarce compliance resources and ineffective independent tests are also emerging as examination themes.
- *Quality of loan growth*. The District's average annual net loan growth continued to outpace the national average with Nevada, California, and Utah leading the way. Economic expansion played a role, as did commercial property price appreciation and an easing of underwriting standards. Although credit performance has been good, now is a critical time for banks to maintain their lending discipline and continue to enhance their controls and practices where they can.
- *Lengthening asset maturities*. In part because of the steep yield curve, institutions increased their holdings of longer-dated assets over the past few years (see chart at right). In a rising interest rate environment, higher concentrations in longer-dated assets could mute asset repricing and margin expansion and/or lead to mismatches in rate-sensitive assets and liabilities, if not appropriately managed.

Estimated Financial Losses as a Result of All Security Incidents
North American Financial Svcs. Firms



PwC, *The Global State of Information Security® Survey 2016 (may not total 100% due to rounding)*

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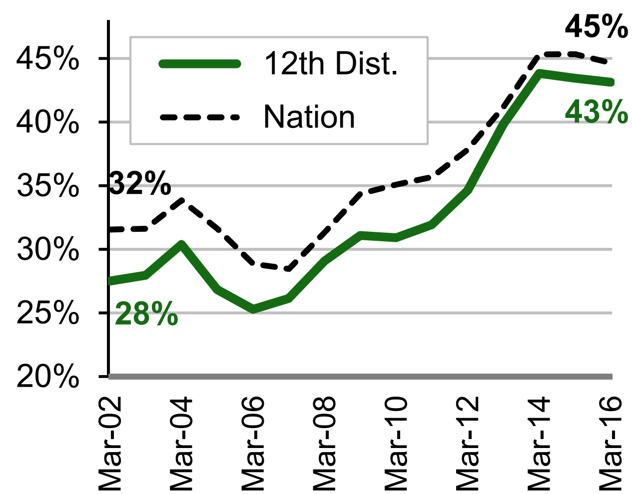
Average Loans & Securities Repricing > 3 Yrs. / Assets*



**Trimmed means*

FRB-SF

Hot Topics: Areas We are Monitoring Most Closely

Additionally, these areas pose more moderate, but increasing, concern:

- *Nonmaturity Deposit (NMD) reliance*. NMDs (traditionally viewed as “core” deposits) have become an increasingly important source of funding for most institutions. While these products proved inexpensive in a low-rate environment, these funds may disintermediate or transition to higher-cost deposit products in a rising interest rate environment. During the last economic expansion and rate tightening cycle (2004-2006), the mix of bank funding shifted away from NMDs and toward higher-cost time deposits and borrowings as growth in core deposits lagged loans and leases.
- *Overhead expense ratios*. Asset growth has led to some economies of scale and improved efficiency ratios have helped boost profitability. Still, some banks may not be devoting sufficient resources to back-office operations, internal controls, and compliance programs commensurate with their increasing size and complexity.
- *Commercial real estate (CRE) lending concentrations*. CRE (i.e., nonfarm-nonresidential, multifamily, C&LD, and unsecured CRE-purpose loans) loan concentrations to capital declined during the recession, but have edged higher since 2013 and remained above average in most District states (see table at right). Loan concentration levels and trends, combined with prior competitive easing of underwriting standards and recent signs of property price pressure, elevate regulatory concern. A potentially rising interest rate environment could impact debt service coverage ratios on variable-rate commercial mortgages negatively and weaken commercial property values. Given the increasing risks, lenders should review SR letter 15-17, *Interagency Statement on Prudent Risk Management for CRE Lending*, which reiterates important CRE risk management considerations.
- *Redlining.* While not new, this is an area of renewed focus across the Federal banking agencies. Redlining, a form of illegal discrimination in which a financial institution makes it more difficult for customers to access credit based on the racial or ethnic composition of a neighborhood, could result in Department of Justice fines, public regulatory enforcement actions, and downgrades to consumer compliance/CRA performance ratings.
- *Financial technology (fintech) firms*. Increasingly, depository institutions are partnering with fintech companies, in particular marketplace lenders. Given origination and underwriting methods that online alternative lenders may use, banks should closely evaluate transactions for credit risk, fair lending, and unfair/deceptive acts or practices. Because credit decisions may use nontraditional data sources, it will be important to ensure that this does not lead to disparate treatment or have disparate impact on a prohibited basis.

Average Commercial Real Estate Loans / Total Capital* (%)

	2006-16	Mar-16
NV	526%	416.3%
OR	490%	383.5%
CA	440%	368.7%
AZ	572%	361.4%
WA	482%	345.8%
AK	343%	300.0%
ID	359%	253.5%
UT	408%	220.7%
HI	215%	179.5%
Nation	231%	194.8%

**Trimmed Means*

Section 1 - Economic Conditions

Job Growth

Housing Market Metrics

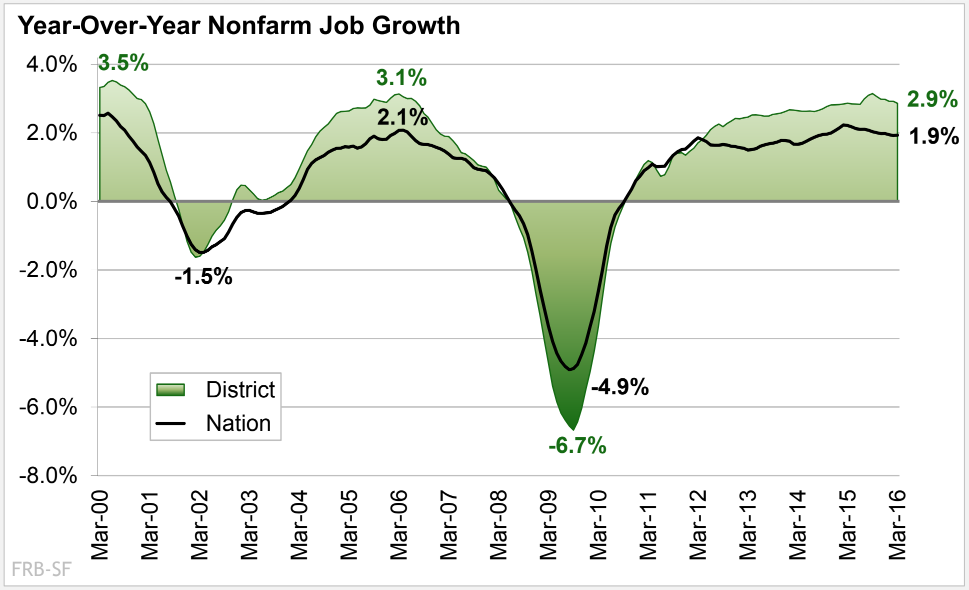
Commercial Real Estate Market Conditions

Venture Capital Trends

Historical Volatility

For more information on the national economy, see:
FRBSF FedViews
(http://www.frbsf.org/economic-research/publications/fedviews/)
FOMC Calendar, Statements, & Minutes
(https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm)

District Job Growth Slowed From the Fourth Quarter's Pace But Exceeded the Nation by a Wide Margin



Based on average nonfarm payroll levels over trailing three months; Source: Bureau of Labor Statistics via Haver Analytics.

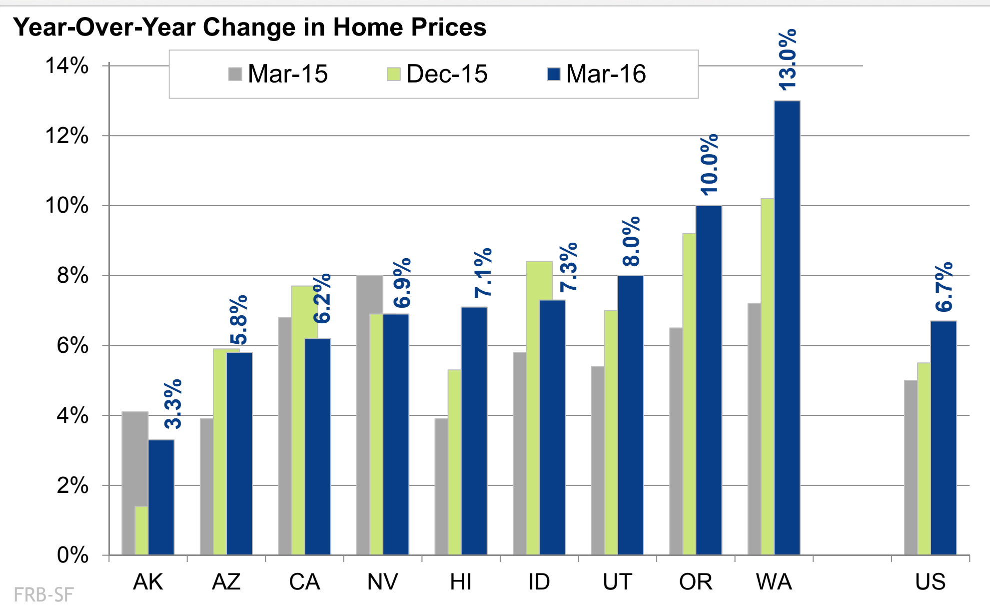
Job Growth Rates Were Highest for the Construction and Information Sectors, but Larger Sectors Drove Most New Jobs

12th District Sectoral Profile of Job Growth - 1Q 2016

FRB-SF	Year-Over-Year % Change: 10-Year Trend	Year-Over-Year % Change: 1Q 2016	Mix of New Jobs	Mix of Overall Jobs
Education & Health Services		4.10%	20.93%	14.80%
Professional & Business Services		3.19%	16.20%	14.57%
Leisure & Hospitality		3.78%	15.68%	11.99%
Construction		6.34%	10.65%	4.97%
Retail Trade		2.59%	9.87%	10.87%
Government		1.52%	8.49%	15.81%
Financial Activities		2.48%	4.49%	5.17%
Transportation & Utilities		3.45%	4.29%	3.58%
Information		4.39%	3.97%	2.62%
Wholesale Trade		2.38%	3.47%	4.15%
Manufacturing		0.41%	1.12%	7.69%
Other Private		0.64%	0.86%	3.78%
Total		**2.86%**	**100.00%**	**100.00%**

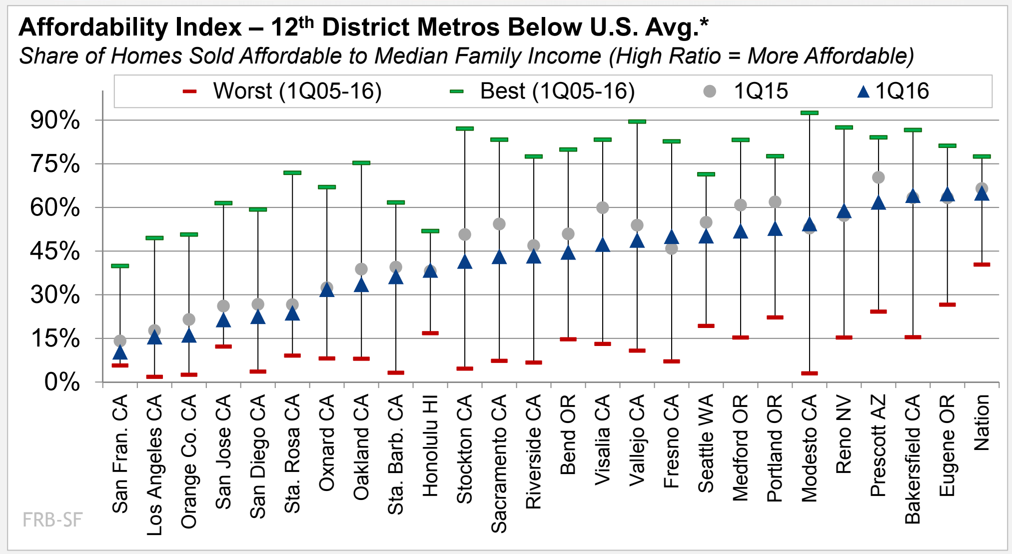
Based on average nonfarm payroll levels during 1Q of each year; because of data limitations, "Construction" includes mining in Hawaii and "Information" excludes Hawaii and Nevada; "Other Private" includes logging and mining (other than Hawaii) plus private industries in 2-digit NAICS code 81 category; Source: Bureau of Labor Statistics via Haver Analytics.

Annual Home Price Gains Were Above-Average in Most District States; Appreciation High and Accelerating in HI, UT, OR, WA



Source: Core Logic

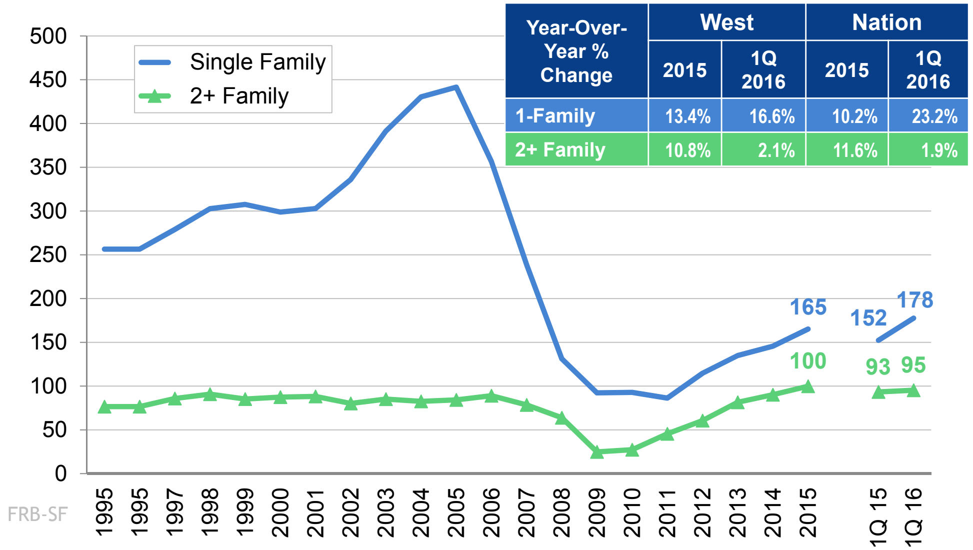
Affordability Slipped; Not Yet as Tight as Pre-Crisis Era
(But Getting Close to Prior Troughs in Some CA Markets)



Represents the share of homes sold that could be considered affordable to a family earning the median income (with a 10% downpayment, a gross income-to-housing cost ratio of 28%, and a fixed-rate, 30-year mortgage loan); housing costs include principal, interest, property taxes, and hazard insurance (not mortgage insurance); the timing of worst and best affordability varied by market, but generally occurred in 2006/07 and 2011/12, respectively; *excludes markets with < 1,000 transactions in 1Q16. Source: National Association of Homebuilders/Wells Fargo

Home Price Gains Prompted New Construction; Meanwhile, Growth in Multifamily Construction Slowed

Average Housing Starts – West (Thousands Of Units, SAAR)

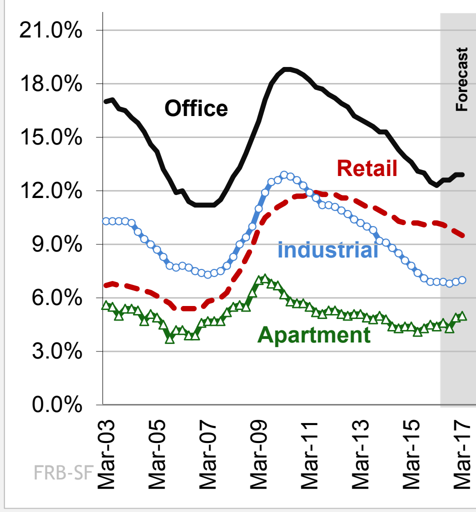


Year-Over-Year % Change	West		Nation	
	2015	1Q 2016	2015	1Q 2016
1-Family	13.4%	16.6%	10.2%	23.2%
2+ Family	10.8%	2.1%	11.6%	1.9%

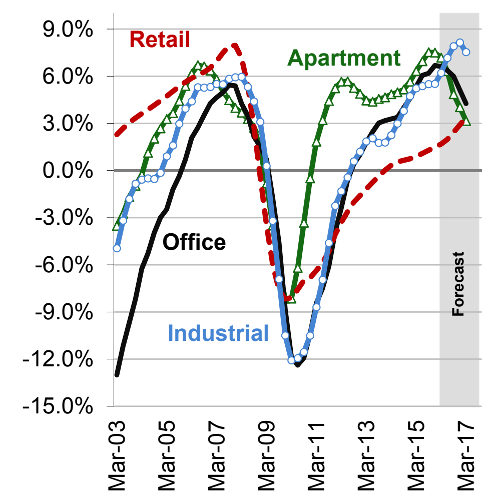
SAAR=seasonally adjusted annual rate; West=12th District plus CO, MT, NM, and WY; Source: Census Bureau via Haver Analytics

According to Third-Party Forecasts, Vacancy Rates May Tick up and/or Rent Growth may Slow for all Sectors but Retail

Weighted Avg. Vacancy or Availability - 12th District



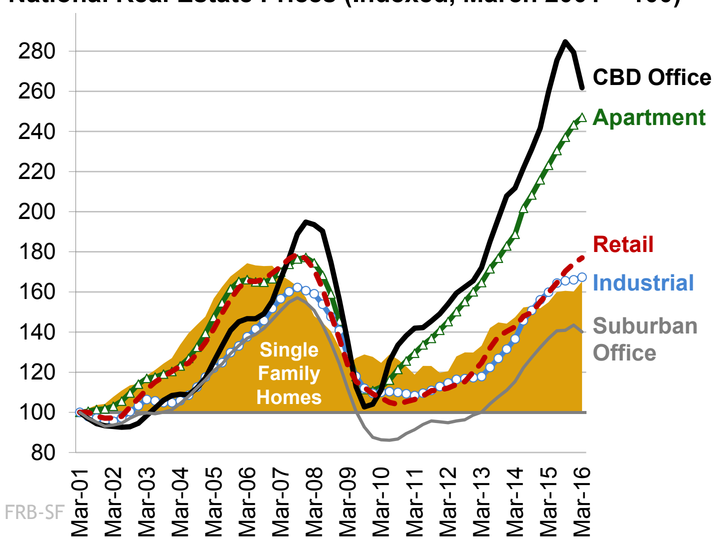
Average Annual Rent Growth 12th District



Based on aggregates across 15-16 large metropolitan areas; apartment data based upon number of units; other property types based upon square footage; Source: CBRE-Econometric Advisors

CRE Price Appreciation is Showing Signs of Slowing, Especially Among Downtown Office Properties

National Real Estate Prices (Indexed, March 2001 = 100)

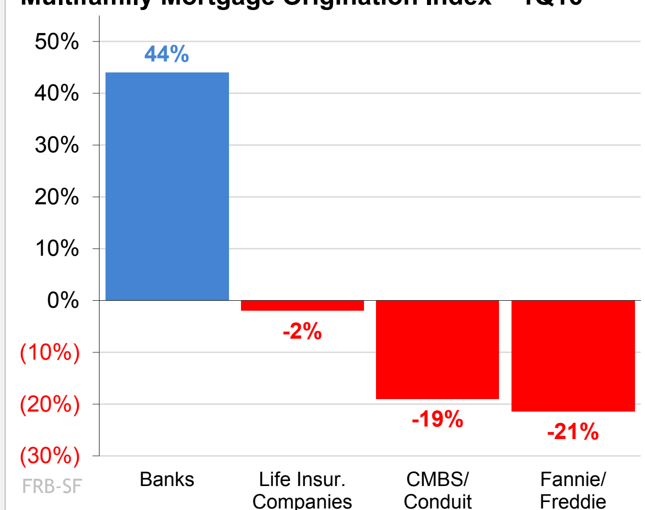


According to Moody's/RCA repeat-sales index, CRE price growth has slowed and even begun to decline in some sectors. The slowdown in price appreciation comes on the heels of an extended run of significant price increases. Lenders and property investors have become more cautious, pressuring credit spreads and capitalization rates. This appears to have had the most significant impact on downtown office properties, especially in major markets.

Sources: Moody's/RCA (Commercial Property Price Indices), Core Logic (Home Price Index); both indices are repeat sales indices; CBD = central business district (downtown)

Credit Market Volatility Caused CMBS Spread Widening and Dampened CMBS Origination Volumes; Banks Picked Up Share

Year-Over-Year Change in Commercial and Multifamily Mortgage Origination Index – 1Q16



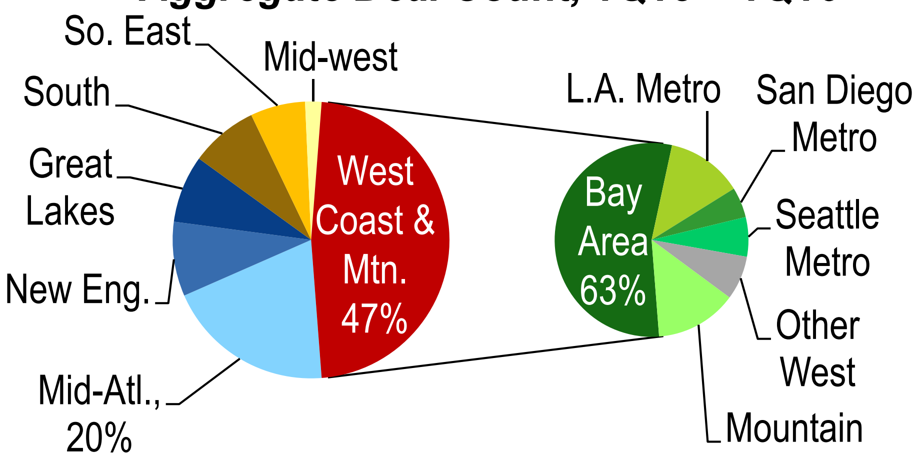
Disruptions in the broader capital markets caused CMBS credit spreads to widen in the second half of 2015 and early 2016. Consequently, some CMBS originators could not price deals profitably and CMBS origination volumes declined relative to first quarter 2015. With their more stable financing sources, banks gained origination market share. Increased lending caps for Fannie and Freddie and changes in risk retention rules for securitizers (effective late 2016), could influence the distribution of originations for the balance of 2016.

Source: Mortgage Bankers Association Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations

Market Volatility Also Weighed on Venture Capital Deals, Nearly Half of Which Benefit 12th District Firms

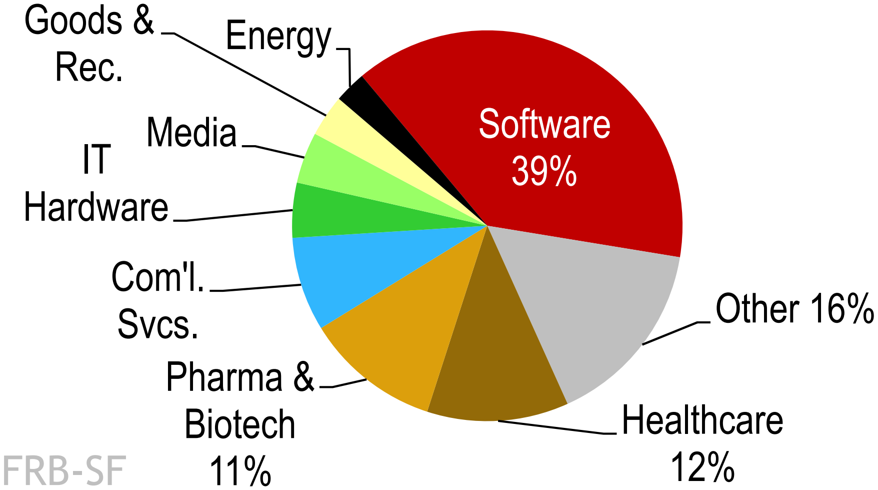
Geographic Mix of VC

Aggregate Deal Count, 1Q13 – 1Q16



Sector Mix of VC

Aggregate Investment 1Q13 -1Q16



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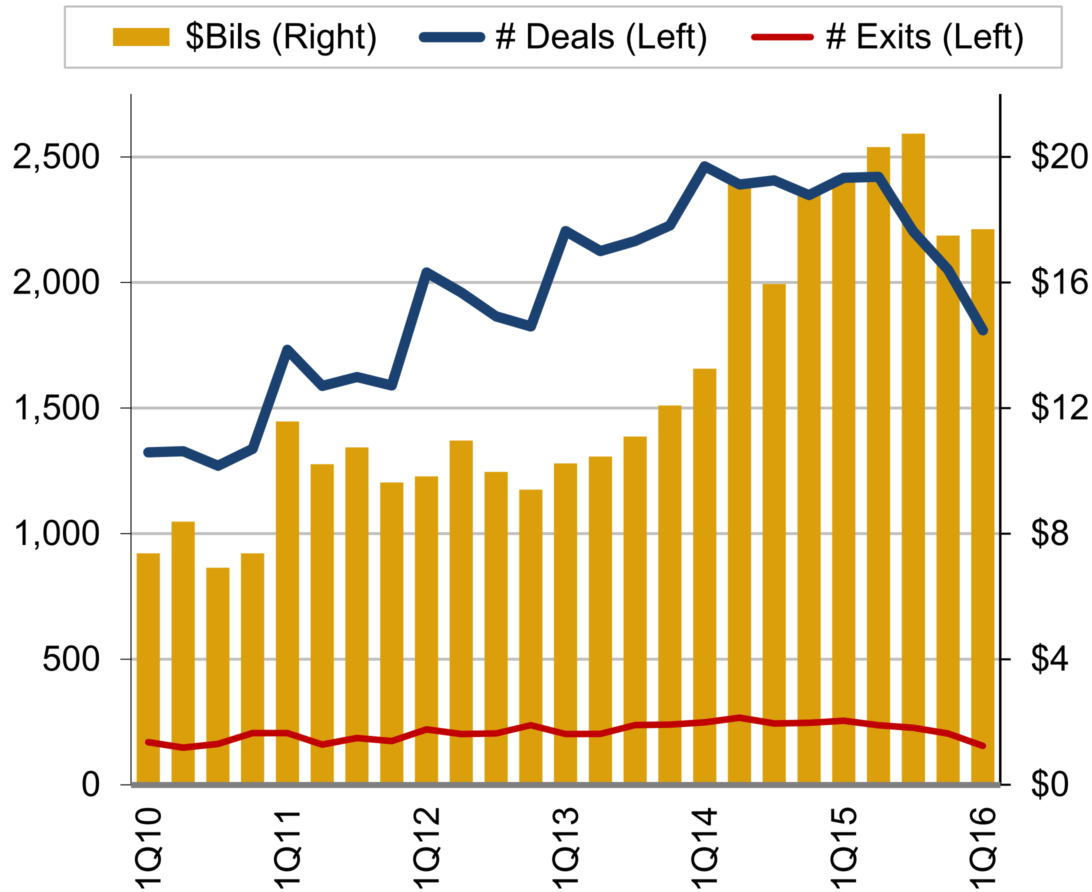
VC firms became cautious in late 2015 and early 2016, particularly for seed/early stage funding, as IPOs declined and exit opportunities weakened. Although VC investments softened, VC fundraising was relatively strong in the first quarter.

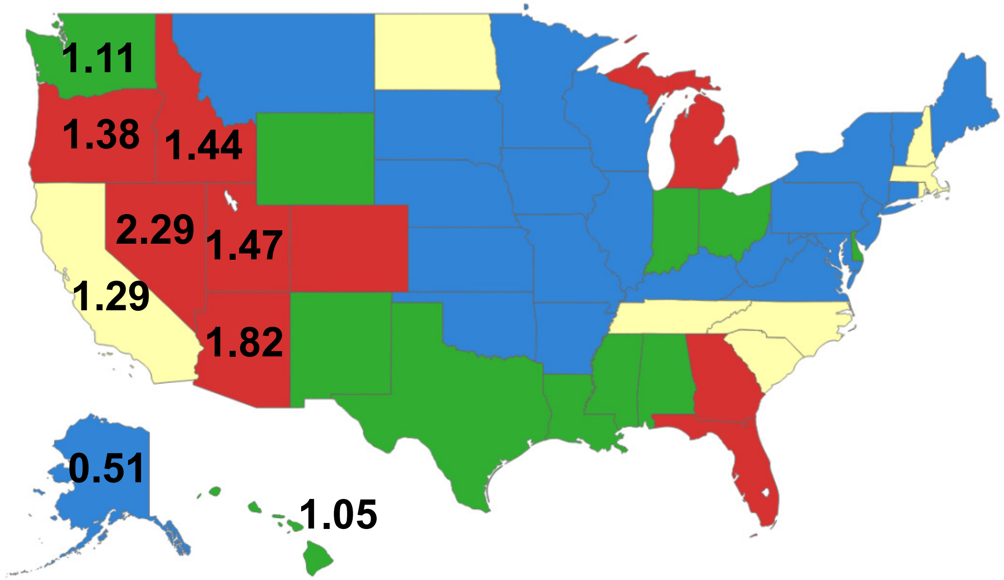
Quarterly VC Invested - Nation



VC = venture capital; exits include initial public offerings (IPOs), acquisitions, and buyouts; Source: PitchBook

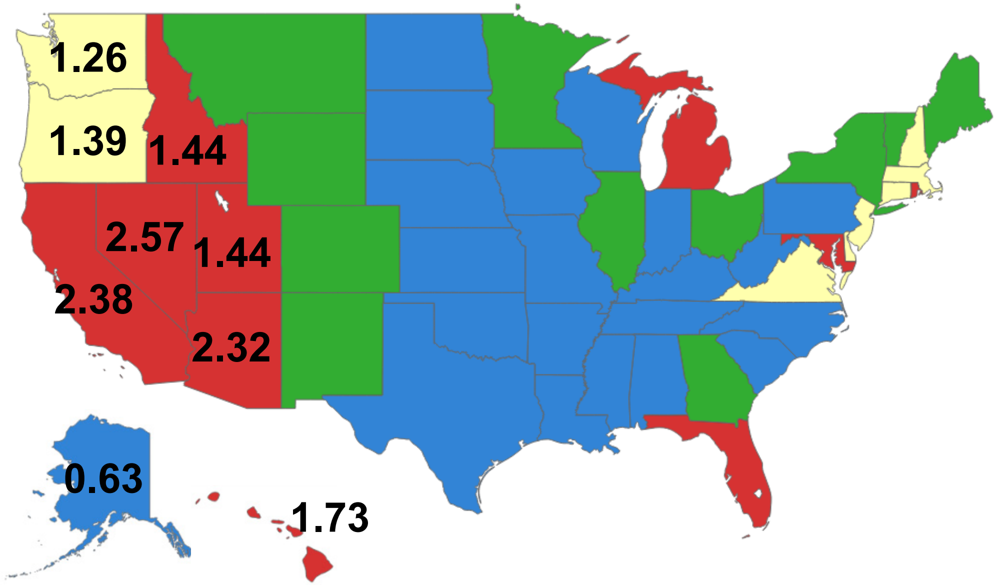
Economic Activity in Most District States Has a History of Above-Average Volatility—Are Downside Risks Greater?

Job Growth Volatility*



Nonfarm Job Growth Volatility Location Quotient (Nation = 1.0)	
> 1.30	red
1.20 - 1.30	yellow
1.00 - 1.20	green
< 1.00	blue

Home Price Volatility*



FHFA Expanded Home Price Index Volatility Location Quotient (Nation = 1.0)	
> 1.40	red
1.20 - 1.40	yellow
0.80 - 1.20	green
< 0.80	blue

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* States above 1.0 are more volatile than the nation as a whole; those below are less volatile; measured by taking the standard deviation (SD) of state average 1-year growth rates, divided by the SD of U.S. growth rates; data based on quarterly figures between 1Q91 and 1Q16 for nonfarm jobs and between 1Q92 and 4Q15 for home prices; Sources: Bureau of Labor Statistics and Federal Housing Finance Administration (FHFA) via Haver Analytics

Section 2
Commercial Bank Performance

Earnings

Provisions and Loan Loss Reserves

Loan Growth and Underwriting

Credit Quality

Liquidity and Interest Rate Risk

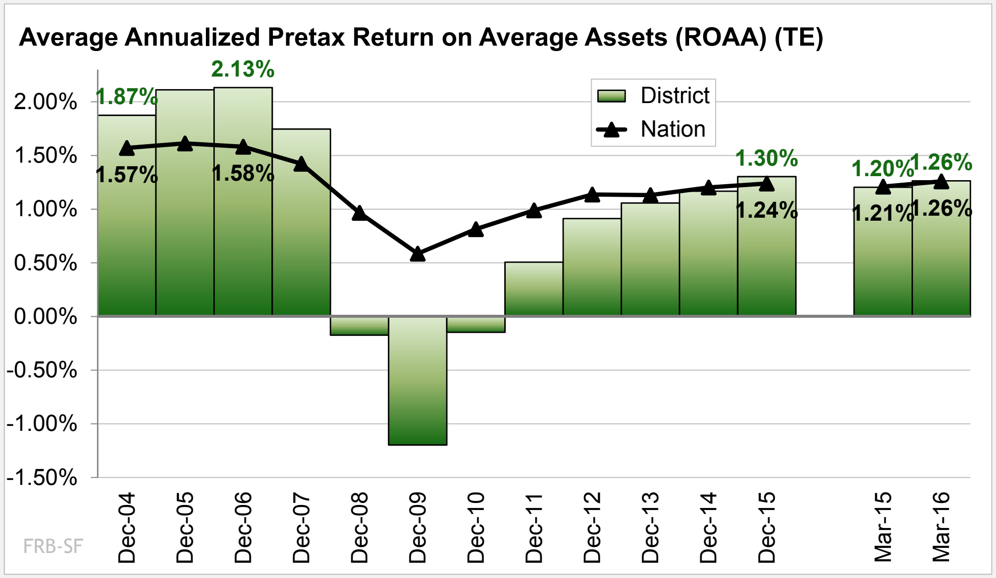
Capital

Historical Volatility

Note: Bank size groups are defined as small (<$10B), mid-sized ($10B-$50B), and large (>$50B) banks. The large bank group covers nationwide banks (a larger statistical population), while the other two groups cover 12th District banks.

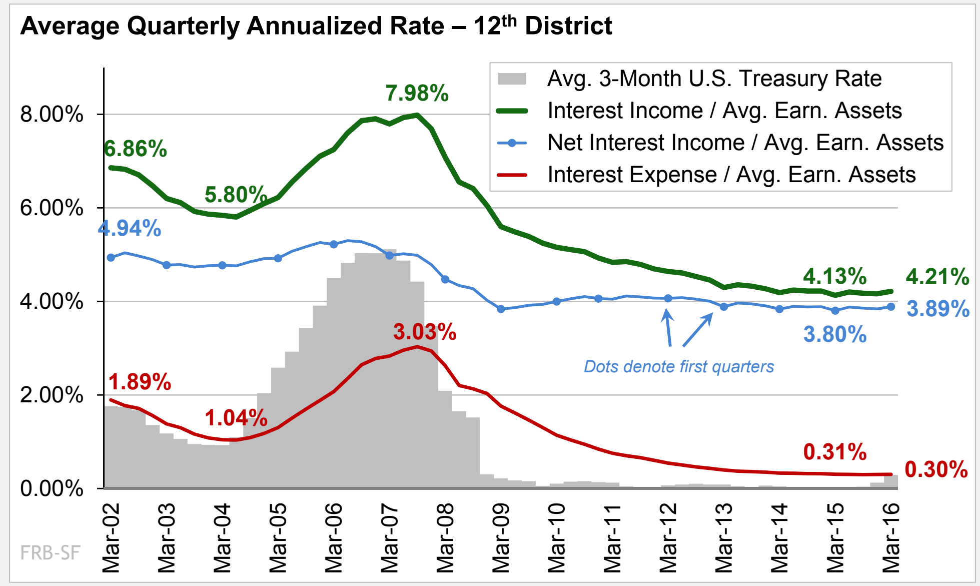
See also "Banks at a Glance," Bank Profiles by State:
http://www.frbsf.org/banking/publications/banks-at-a-glance/

Earnings: First Quarter Pretax Profit Ratios Improved Year-Over-Year, Similar to the Nation



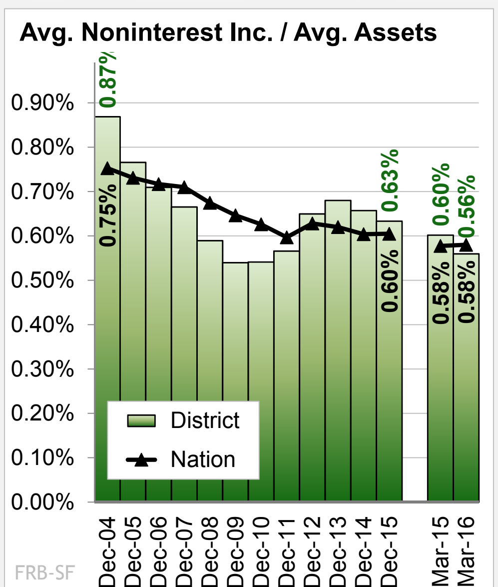
Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 3/31/16 data; for comparability, pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities

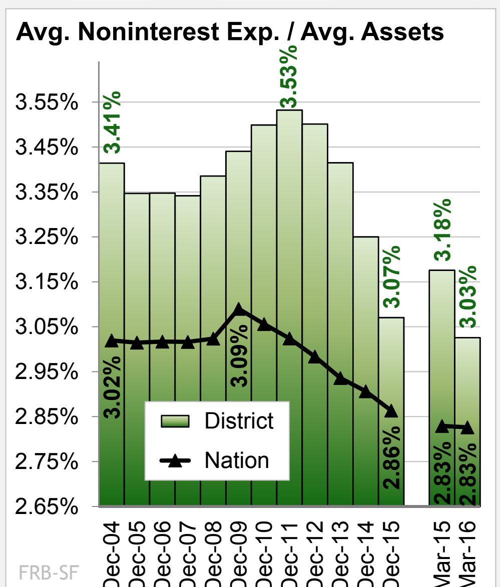
Net Interest Margins, Which Often Exhibit a First Quarter Seasonal Dip, Were Buoyed by Rising Short-Term Rates



Based on 12th District commercial banks, excluding De Novos; quarterly annualized trimmed means; preliminary 3/31/16 data; data are presented on a tax-equivalent (TE) basis; average 3-month constant maturity U.S. Treasury (UST) Rate from Federal Reserve via Haver Analytics

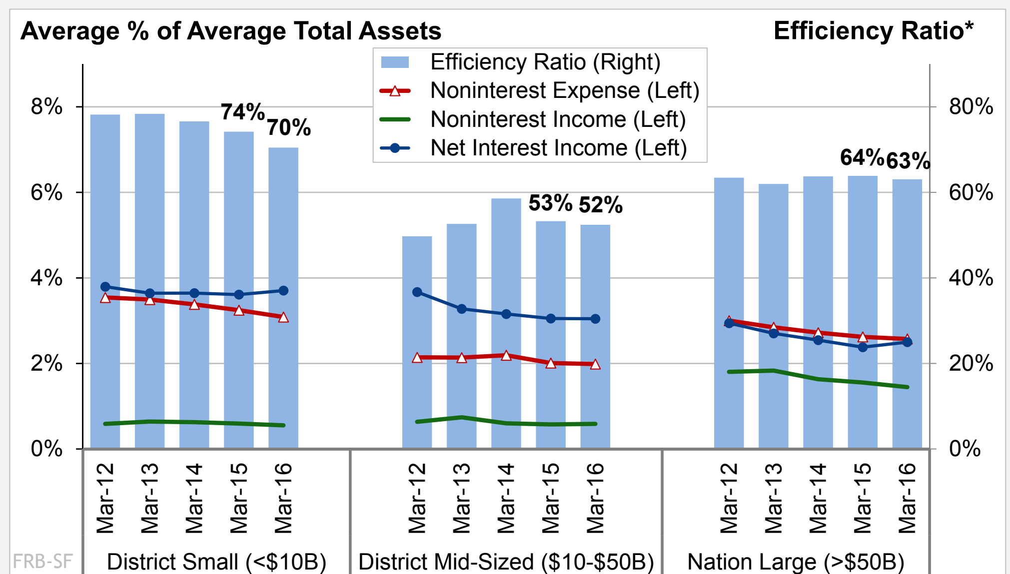
Noninterest Income Ratios Slipped Further, Partially Offsetting the Benefit of Steep Drops in Overhead Ratios





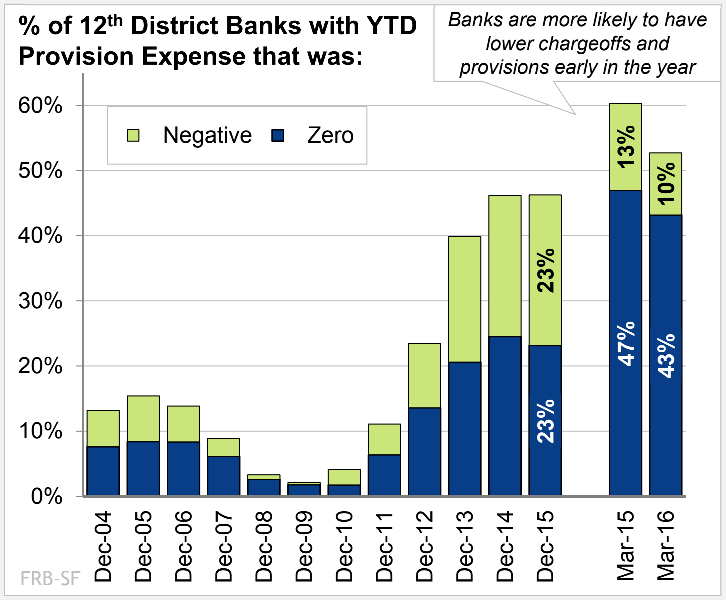
Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 3/31/16 data

Lower Overhead Burdens and Wider Margins Benefited Efficiency Ratios, Especially at Smaller Banks



Based on commercial banks, excluding De Novos; year-to-date annualized trimmed means; preliminary 3/31/16 data; *efficiency ratio = noninterest expense divided by sum of net interest income and noninterest income

Loan Loss Reserves: Year-Over-Year, Provision Expense Ratios Increased, Notably at Large Banks

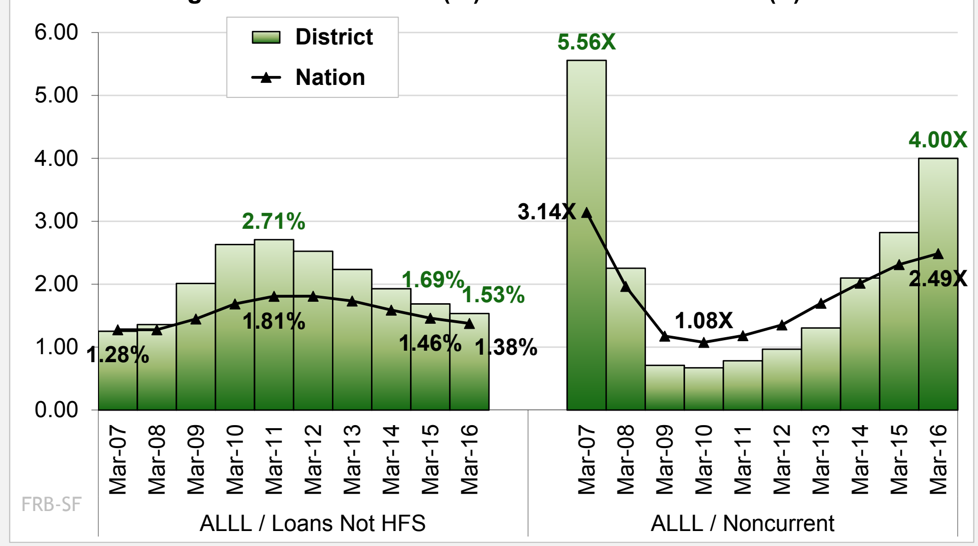


Average Provision Expense / Average Assets (%)

Bank Size	Mar-2015	Mar-2016
District Small (<$10B)	0.03%	0.05%
District Mid-Sized ($10B-$50B)	0.02%	0.05%
Nation Large (>$50B)	0.13%	0.28%

Based on commercial banks, excluding De Novos; year-to-date (YTD); preliminary 3/31/16 data

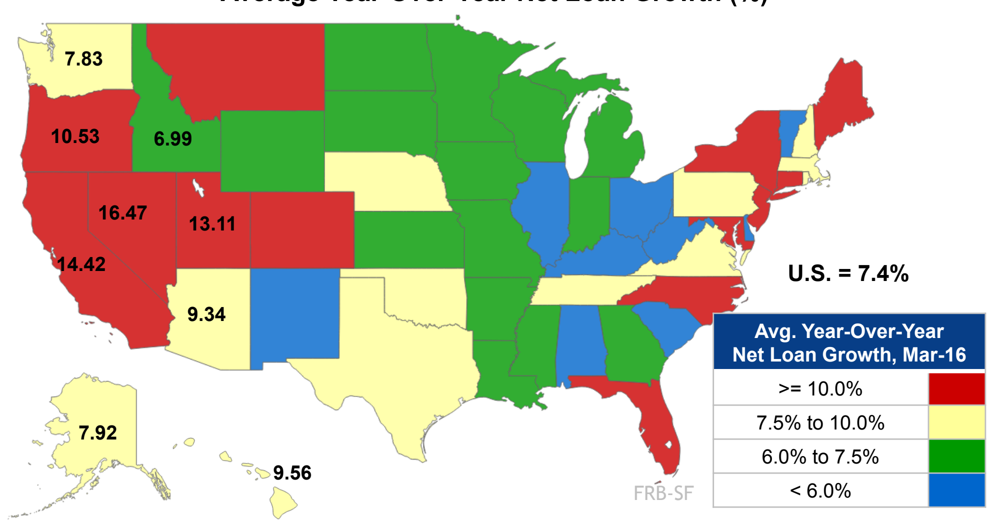
Growth in Loans Outpaced ALLL, but Reserves Increased as a Share of (Declining) Noncurrent Loans



Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status

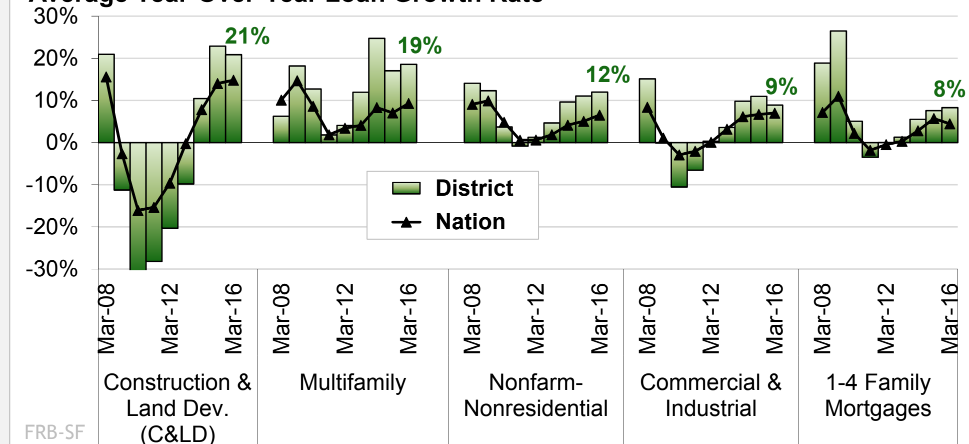
Loan Growth: Average Net Loan Growth Was Brisk Throughout Much of the West

Average Year-Over-Year Net Loan Growth (%)



Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 3/31/16 data

Growth Was Fastest Among (Relatively Small) C&LD and Multifamily Portfolios; Larger Categories Also Expanded Solidly

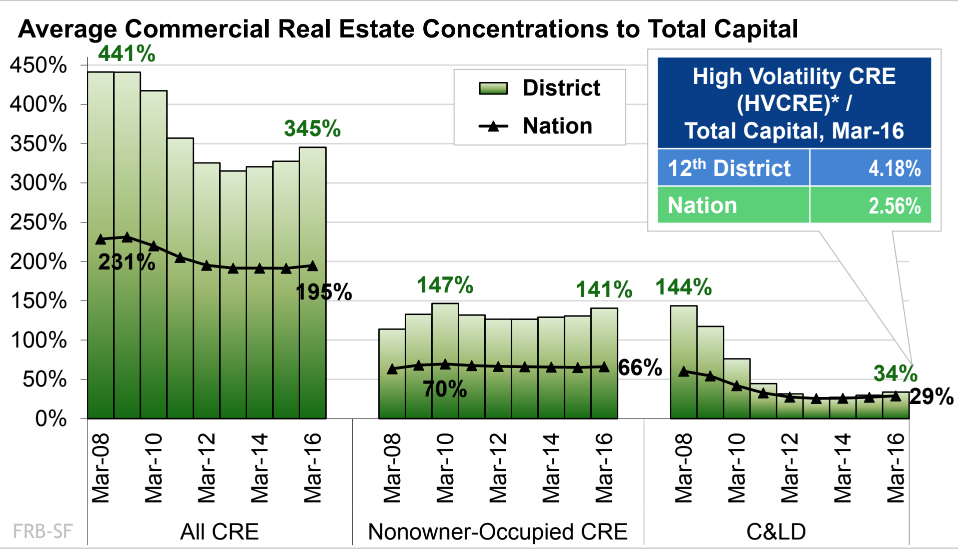


Memo: Average Share of Total Loans, Mar-16

	C&LD	Multifamily	Nonfarm-Nonresidential	Commercial & Industrial	1-4 Family Mortgages
District	5.7%	5.1%	45.1%	15.6%	13.7%
Nation	4.9%	2.1%	24.3%	12.6%	25.2%

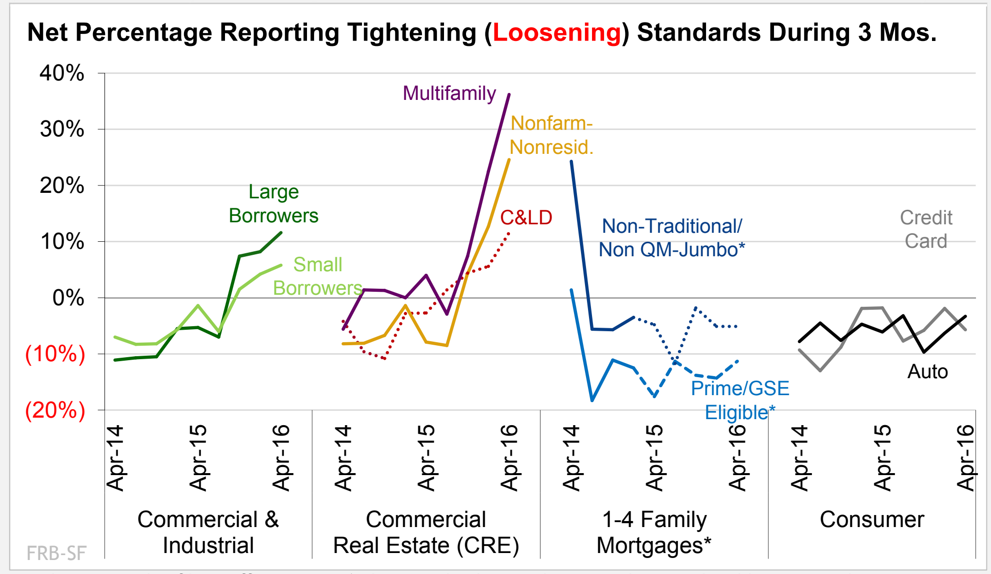
Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 3/31/16 data

Loan Growth Pushed CRE Loan Concentrations Even Higher, but C&LD Holdings Remained Well-Below Prior Peak



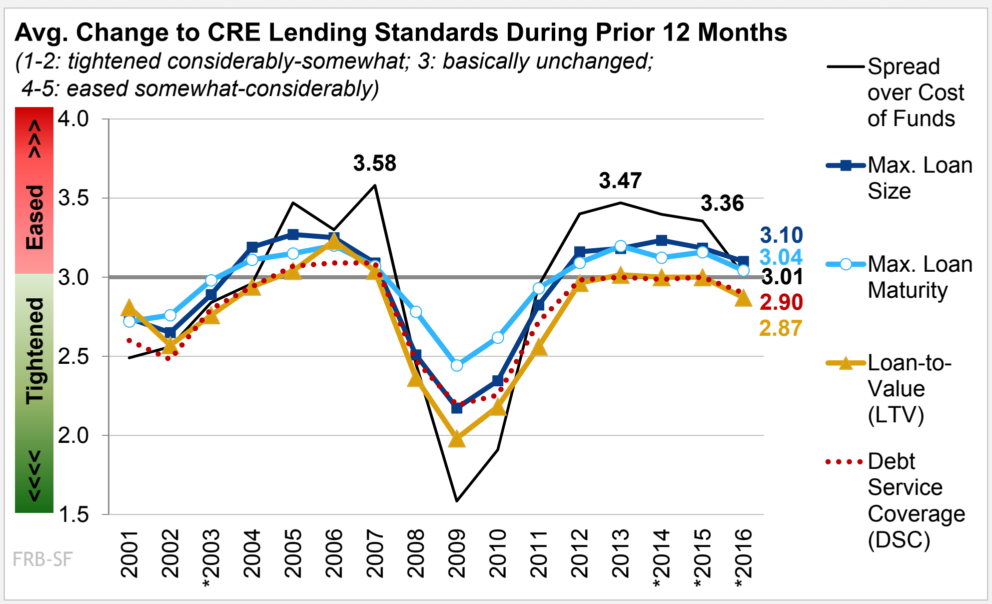
Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; All CRE= multifamily, nonfarm-nonresidential (NFNR), construction and land development (C&LD), and other CRE-purpose loans; Nonowner-Occupied CRE= multifamily, nonowner-occupied NFNR, C&LD, and other CRE-purpose loans; *per Basel III, HVCRE generally includes nonresidential C&LD loans with high leverage and/or low developer cash equity

Growth Occurred In Spite of Tighter Lending Standards on Commercial & Industrial and CRE Loans in Early 2016



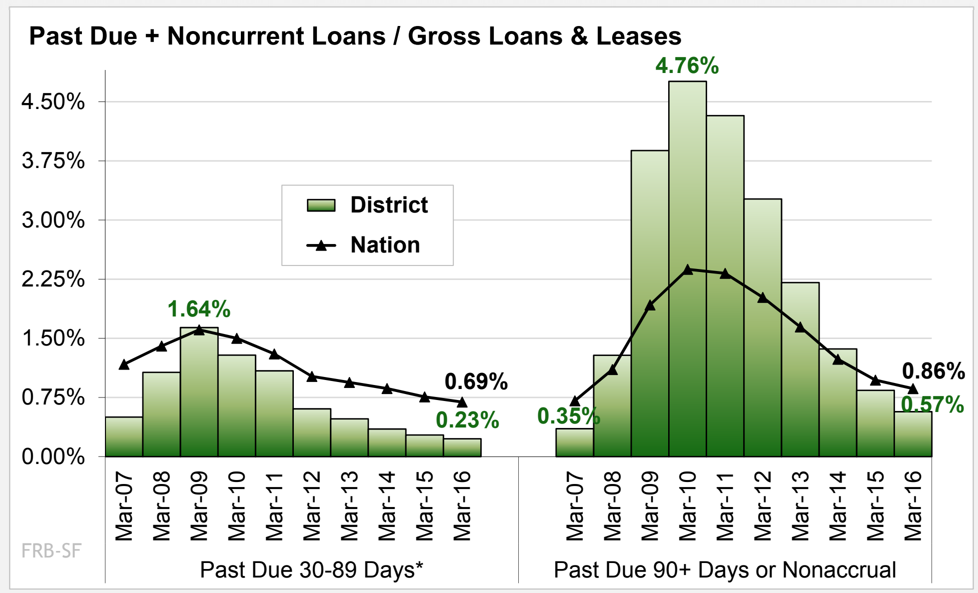
Based on a sample of loan officers at 70+/- domestic banks (number varies by period and loan type); *beginning January 2015, two categories were replaced with six based on GSE eligibility, qualifying mortgage (QM) status, and size (making comparisons imperfect); C&LD = construction and land development; Source: Federal Reserve Senior Loan Officer Opinion Survey (http://www.federalreserve.gov/BoardDocs/snloansurvey/)

In the Past Year, CRE Lenders Shifted Standards for Pricing Spreads and Collateral and Debt Service Coverage Ratios



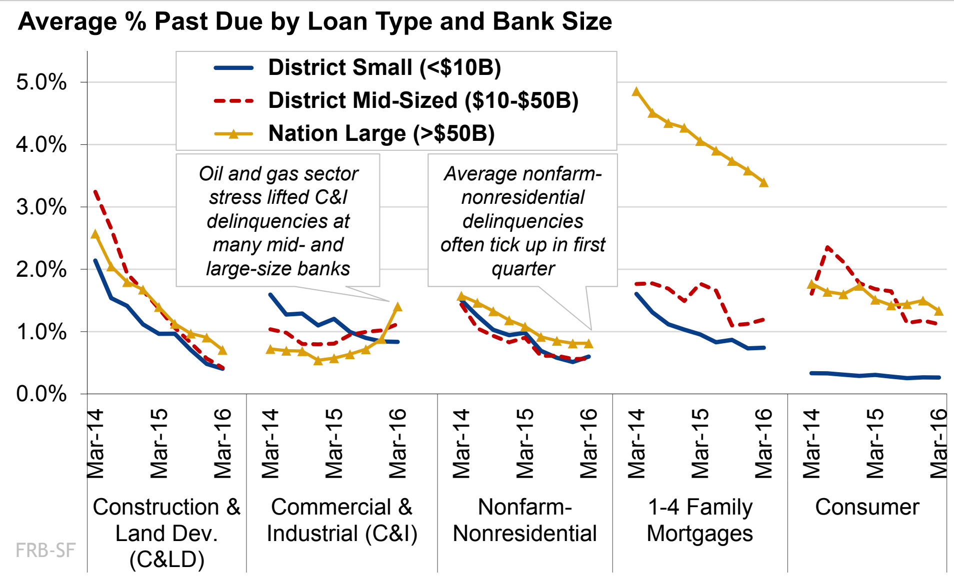
Based on an annual sample of loan officers at 54-76 domestic banks (number varies by reporting period); survey conducted in January or April (*) of each year; Source: Federal Reserve Senior Loan Officer Opinion Survey

Credit Quality: District Bank Loan and Lease Delinquencies Moderated Further and Were Below the National Average



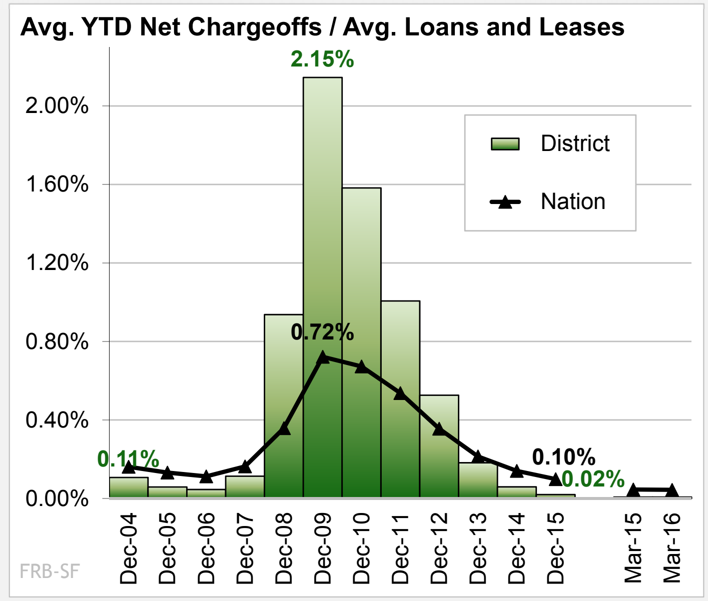
Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; *delinquent but still accruing interest

Average Past Due Ratios Increased for C&I at Mid/Large Banks (Energy Stress) and for Commercial Mortgages (Seasonality)



Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; past due = loans 30+ days past due or on nonaccrual status

Average District Net Chargeoff Rate Remained Near Zero; Energy Sector Woes Caused Higher C&I Losses at Large Banks

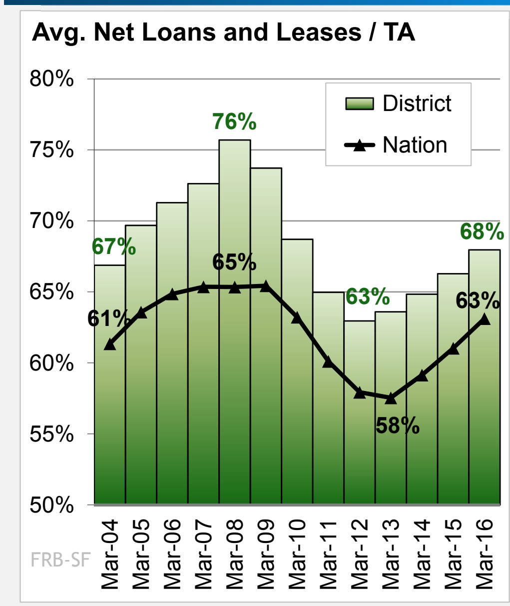


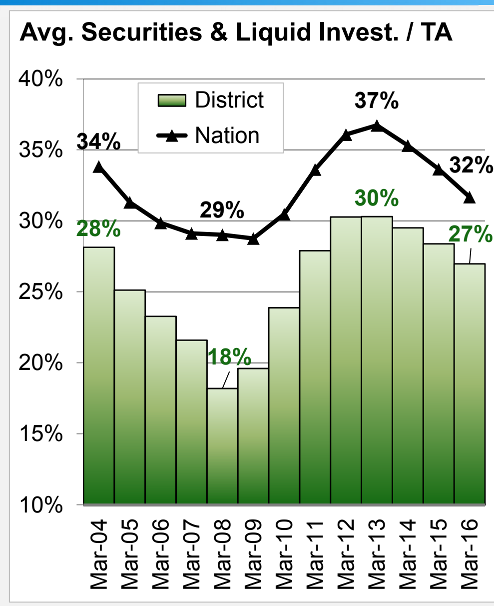
Average YTD C&I Net Chargeoffs (Recoveries) / Avg. C&I Loans (%)

Bank Size	Mar-2015	Mar-2016
District Small (<$10B)	(0.03%)	(0.02%)
District Mid-Sized ($10B-$50B)	0.17%	0.18%
Nation Large (>$50B)	0.15%	0.43%

Based on commercial banks, excluding De Novos; year-to-date (YTD) annualized trimmed means; preliminary 3/31/16 data; C&I = commercial and industrial loans

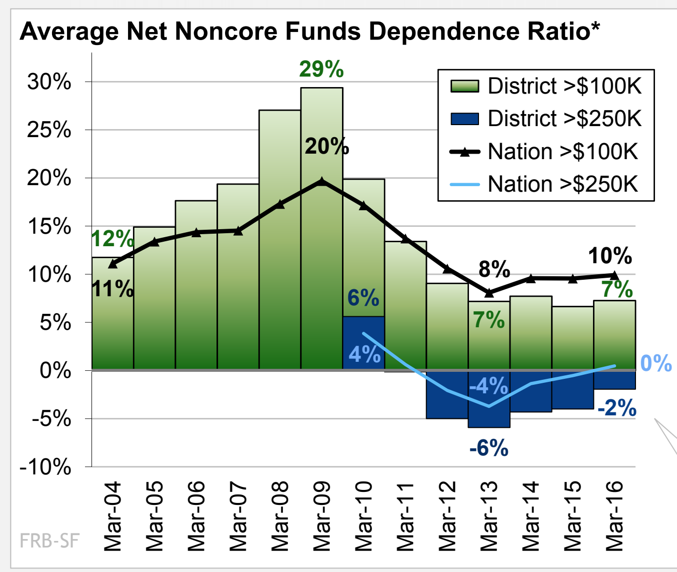
Liquidity: On-Balance Sheet Liquidity Tightened Further As Assets Shifted Towards Loans





Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; TA = total assets; Liquid invest. = cash, due from balances, and Federal funds sold & securities purchased under agreements to resell

Reliance on Noncore Funding Remained Moderate, Especially Among Small Banks



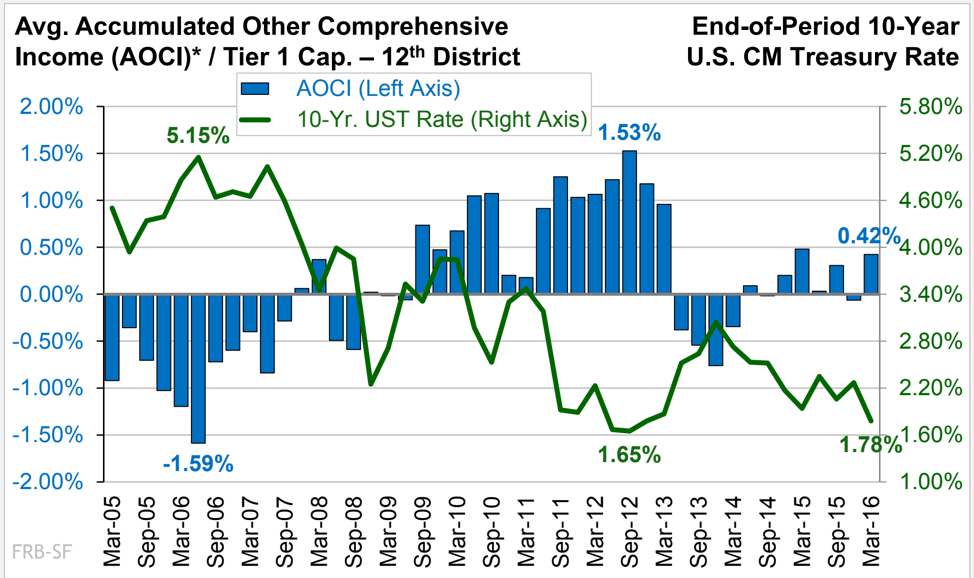
Avg. Net Noncore Funds Dependence* (%) by Bank Size
(Using CDs > $100K)

Bank Size	Mar-2015	Mar-2016
District Small (<$10B)	6.0%	7.0%
District Mid-Sized ($10B-$50B)	15.3%	12.8%
Nation Large (>$50B)	16.5%	15.2%

Net noncore funding ratio remained negative if CDs between $100K and $250K were excluded.

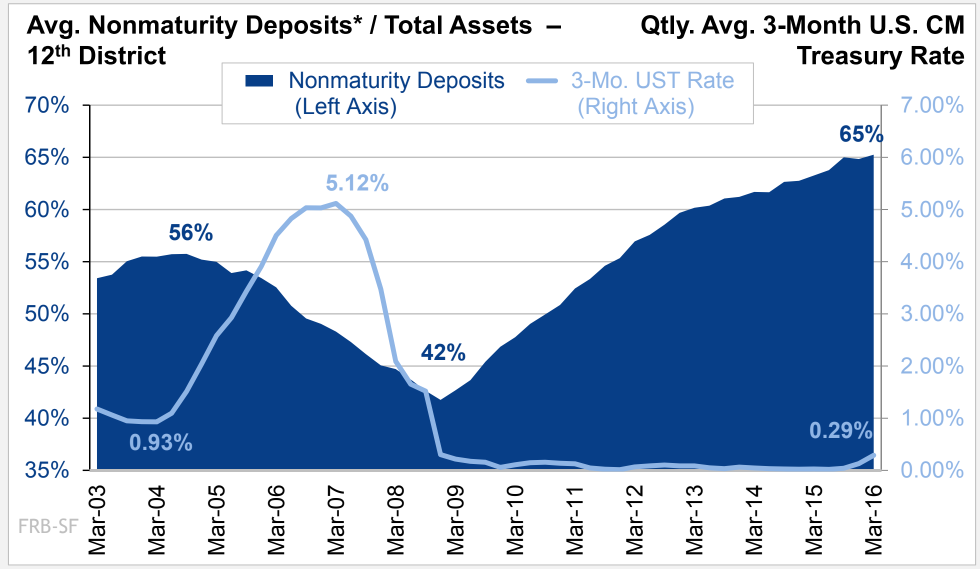
Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; *net noncore funds dependence is sum of borrowed funds, foreign and brokered deposits, large CDs (previously defined as > $100K—green bars, now defined as > $250K—blue bars) less short-term investments divided by long-term assets

A First Quarter Decline in Long-Term Interest Rates Boosted Investment Portfolio Values and AOCI



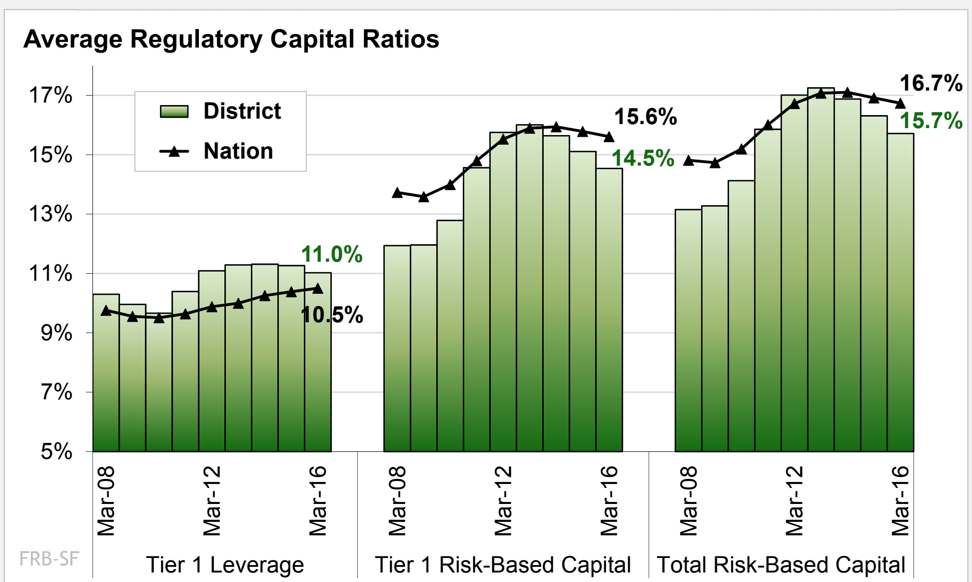
Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; *accumulated other comprehensive income is comprised mainly of net unrealized gains and losses on available-for-sale securities; Constant Maturity (CM) Treasury Rate from Federal Reserve via Haver Analytics

The Share of Assets Funded by Nonmaturity Deposits Could Decline as Rates Rise (as in 2004-2006)



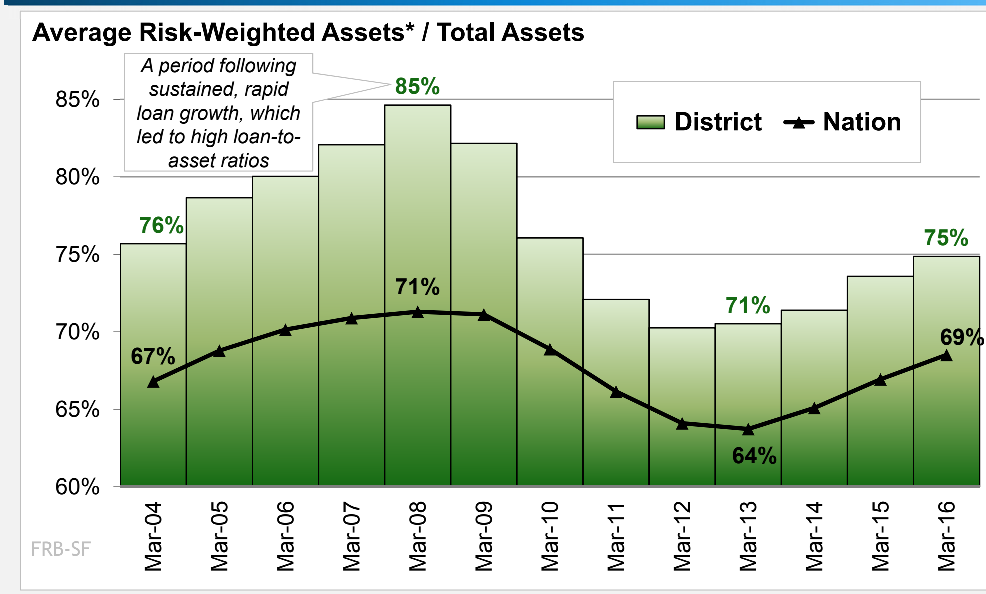
Deposit data based on commercial banks based in the 12th District, excluding De Novos; trimmed means; preliminary 3/31/16 data; *nonmaturity includes demand, money market, and savings; Constant Maturity (CM) U.S. Treasury (UST) Rate from Federal Reserve via Haver Analytics

Capital: District Bank Capital Ratios Moderated; Risk-Based Measures Underperformed the Nation



Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; new risk-based capital reporting became effective March 2014 for advanced approach adopters and March 2015 for others

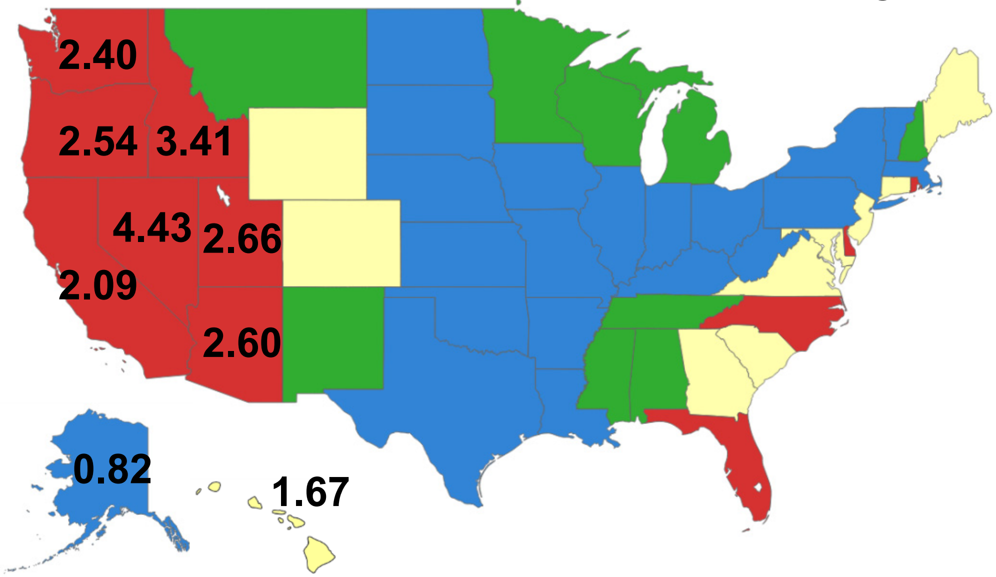
Low and Declining Risk-Based Capital Ratios Reflected a High and Increasing Mix of Assets in Higher Risk Weight Categories



Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/16 data; *Assets risk weighted according to regulatory risk-based capital rules in effect as of the report filing date; weights generally reflect perceived credit risk

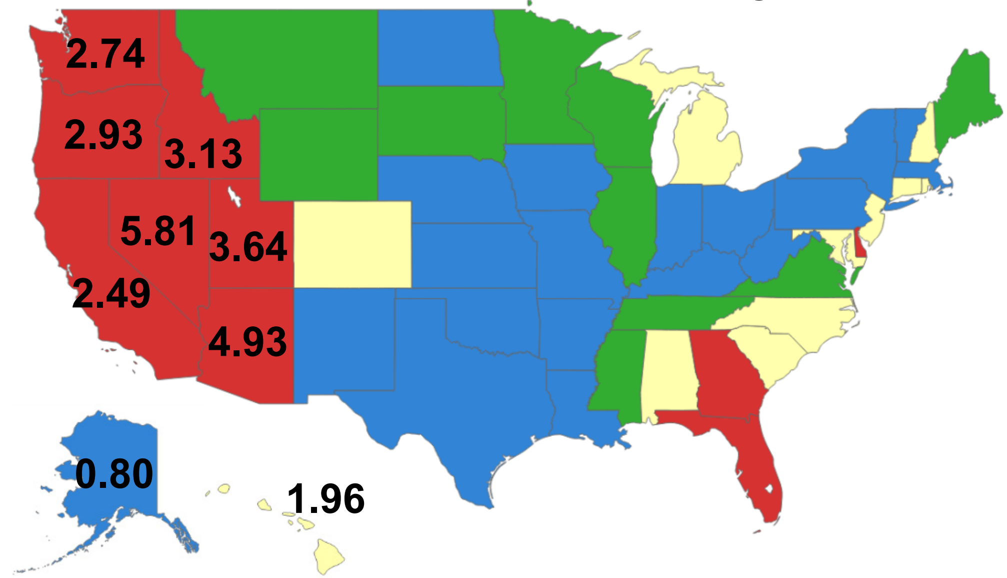
Banking Metrics in the District Have Shown Above-Average Volatility Historically, Suggesting Greater Cyclical Risks

1-Year Net Loan Growth Volatility*



1-Year Net Loan Growth Volatility Location Quotient (Nation = 1.0)	
> 2.00	Red
1.50 - 2.00	Yellow
1.00 - 1.50	Green
< 1.00	Blue

Pretax ROAA Volatility*



Quarterly Pretax ROAA Volatility Location Quotient (Nation = 1.0)	
> 2.40	Red
1.40 - 2.40	Yellow
0.90 - 1.40	Green
< 0.90	Blue

FRB-SF

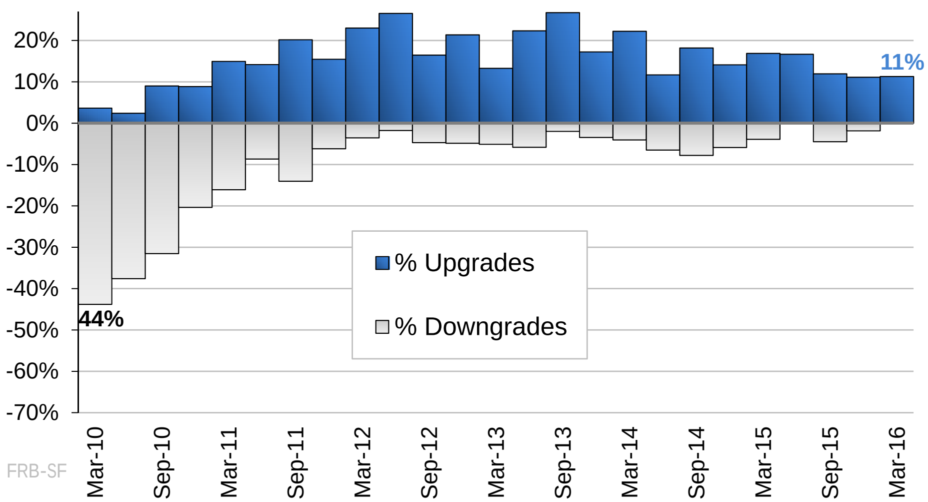
Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 3/31/16 data; *States above 1.0 are more volatile than the nation as a whole; those below are less volatile; measured by taking the standard deviation (SD) of state average 1-year net loan growth rate and quarterly pretax ROAA, divided by the SD of comparable U.S. averages (1Q01 through 1Q16)

Section 3 – Regulatory Ratings and Trends

Focusing on trends in safety and soundness, consumer compliance, and Community Reinvestment Act examination ratings assigned by regulatory agencies to commercial banks headquartered within the 12th Federal Reserve District.

Regulatory Ratings: Upgrades Continued to Outpace Downgrades in the First Quarter

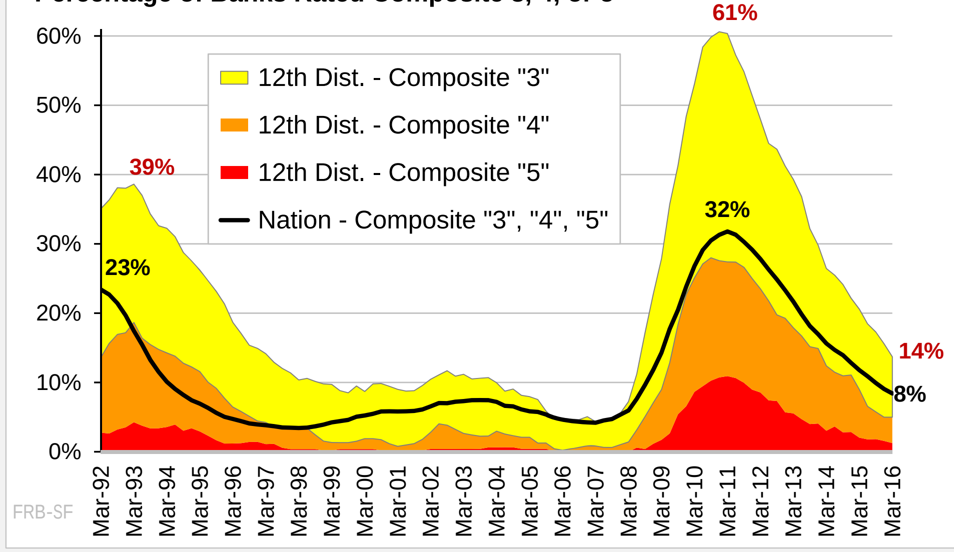
Percentage of 12th District Exams that Resulted in CAMELS Composite Rating Upgrade or Downgrade *(downgrades shown as negative percentages)*



Includes any change in composite CAMELS rating for commercial banks; quarterly data based on examination completion dates (mail dates); preliminary first quarter 2016 data updated through 04/19/16

The Share of District Banks with Composite Ratings of 3, 4, or 5 Moderated; District is Historically More Volatile

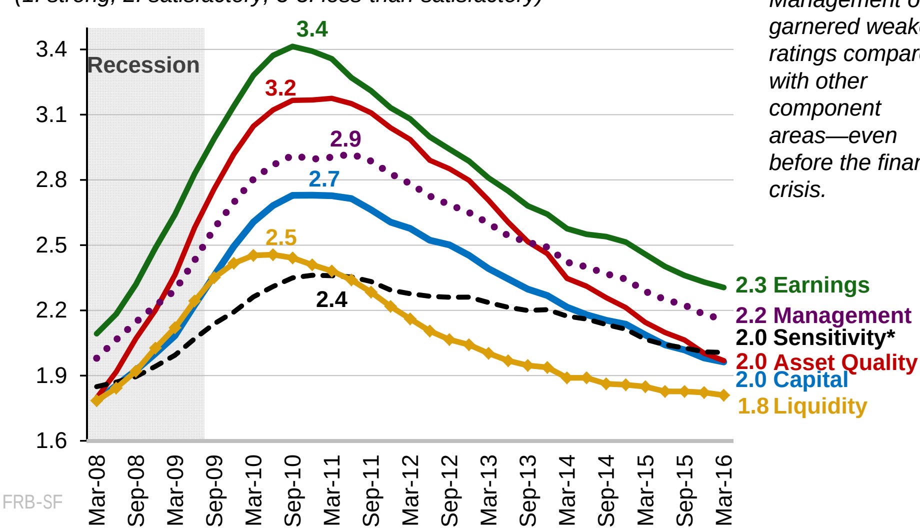
Percentage of Banks Rated Composite 3, 4, or 5



Trends for all commercial banks based on examination completion dates (mail dates); preliminary first quarter 2016 data updated through 04/19/16

Earnings and Management Remained Weakest Components

Average CAMELS Component Ratings for 12th District Banks
(1: strong; 2: satisfactory; 3-5: less-than-satisfactory)

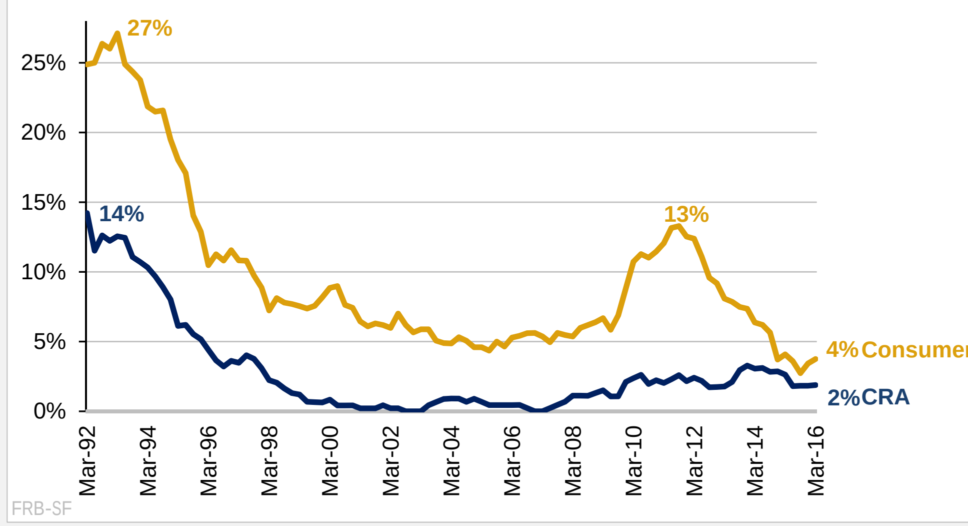


Earnings and Management often garnered weaker ratings compared with other component areas—even before the financial crisis.

Trends for all commercial banks based on examination completion dates (mail dates); preliminary first quarter 2016 data updated through 04/19/16; *Sensitivity to Market Risk

The Vast Majority of Banks Continued to Have Satisfactory Consumer Compliance and CRA Ratings

Percentage of 12th District Banks with Less-than-Satisfactory Ratings



Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; preliminary first quarter 2016 data updated through 04/19/16

Appendices

1. Summary of Institutions
2. Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Mar-15	*Mar-16*	*Mar-15*	*Mar-16*	*Mar-15*	*Mar-16*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	21 (0)	17 (0)	-	-	1 (0)	1 (0)
CA	190 (1)	173 (0)	4 (0)	3 (0)	12 (0)	12 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	6 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	11 (0)	11 (0)	-	-	1 (0)	1 (0)
NV	12 (0)	11 (0)	4 (0)	4 (0)	2 (0)	2 (0)
OR	23 (0)	22 (0)	-	-	3 (0)	3 (0)
UT	31 (0)	30 (0)	18 (0)	16 (0)	4 (0)	2 (0)
WA	46 (0)	42 (0)	-	-	12 (0)	10 (0)
12L	346 (1)	317 (0)	27 (0)	24 (0)	39 (0)	35 (0)
US	5,502 (11)	5,260 (4)	29 (0)	26 (0)	884 (2)	833 (1)

Based on preliminary 3/31/16 data.

Appendix 2: Technical Information

This report focuses on the financial trends and performance of commercial banks headquartered within the 12th Federal Reserve District ("12L"). 12L includes 9 western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam. NV data excludes credit card and zero loan banks. Industrial banks and savings institutions, which have different operating characteristics, are excluded from graphics (other than the table to the left).

De Novos: Many of the charts exclude "De Novo" banks, or banks less than five years old.

Groups by Asset Size: "Small", and "Mid-Sized" bank groups are based on 12th District community banks (<$10B) and regional banks ($10B-$50B), respectively. The "Large" bank group is based on nationwide banks with assets >$50B because a larger statistical population was needed to construct trimmed means.

Trimmed Mean (also referred to as "average"): Many of the charts present trends in ratio averages, adjusted for outliers. The method used is to eliminate or "trim" out the highest 10% and the lowest 10% of ratio values and average the remaining values.

Aggregate: In some cases, the trimmed mean method is not appropriate (e.g., when many banks have zero values for a particular ratio or for some growth rates where there may be many highly positive and highly negative values). In these cases, District aggregates sometimes are computed (i.e., summing numerator values across all District banks and dividing by the sum of all denominator values), as opposed to averaging individual bank ratios. When an aggregate is used, it is indicated on the chart.